



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: August 29, 2010
TO: Honorable Mayor and City Council
FROM: Councilmember Carl DeMaio *Carl DeMaio*
RE: Reforming Taxpayer Subsidized Pensions for Politicians

City politicians currently have the most generous pension benefits of any City employee classification. On top of that, while the City Charter presumes “substantially equal” contributions for normal retirement allowances, politicians granted themselves a massive subsidy as recently as 2002 by “clarify[ing] and describ[ing] in ‘plain English’ the existing contribution rates for Elected Officer Members” in the Municipal Code.¹

Such an arrangement is troublesome during healthy financial times for the City. However, as the unsustainable spending in our City’s budget continues to threaten services and cause increased calls for higher taxes on working families, the current pension benefits - and taxpayer subsidy for the cost of funding the benefits - provided to City politicians is simply indefensible.

Recently, Councilmembers Faulconer, Frye and Gloria requested that the City Council take up only the elimination of the retirement contribution offset for politicians. Given that the taxpayer subsidy for politician pensions extends far beyond the retirement offset contribution, I request that elimination of the entire unequal taxpayer subsidy for the pensions of politicians be docketed at the same meeting where the elimination of the retirement contribution offset for politicians is being considered, or sooner.

Enacting this reform proposal would truly achieve substantially equal retirement contributions for politicians. Put simply, it is essential that City politicians pay their fair share of the cost of their extravagant pension plans. The status quo, or any “reform” that falls short of the substantially equal cost-sharing called for by the City Charter represents a failure to lead by example.

¹ See Item 56 of the City of San Diego Agenda for the Regular Council Meeting of March 18, 2002, and Item 50 of the Meeting of April 2, 2002. Both items related to the passage of Ordinance O-19043.



True Cost of Councilmember Benefits Package

A review of the total Councilmember compensation package shows the incredibly high cost of the pension package:

TABLE 1: FY 2011 Budgeted Councilmember Total Compensation	
Salary	\$75,096
Pension Contributions	\$52,237
Offset Contribution*	\$4,440
Other Fringe Costs*	\$22,376
TOTAL	\$154,149

**FY 2010 budgeted values provided by the
Financial Mgmt. Dept. carried forward*

On August 5th, 2010, Councilmembers Faulconer, Frye and Gloria requested an ordinance be drafted to eliminate City retirement offsets for politicians.

While I support this initiative as a step in the right direction, it is important to note that even after elimination of the offset, City Councilmembers will continue to receive heavily taxpayer-subsidized pension contributions - the most heavily subsidized of all city employees.

Each year, the City Council grants their own pension contribution offset in the salary ordinance, most recently affirming a 5.89% contribution offset in the FY 2011 salary ordinance.² The City Council also affirmed that their pension contributions are capped via Municipal Code section §24.1704 in 2002. This cap overrides the City's substantially equal contribution as determined by the SDCERS actuary, in effect creating a pension contribution subsidy for City politicians.

Proposed Change to Municipal Code

While news of this subsidy may alarm taxpayers, fortunately there is a solution: the Municipal Code section causing this massive subsidy can be changed by a simple vote of the City Council.

I request that the following change to the Municipal Code be docketed for City Council consideration at the same meeting where elimination of the Council retirement contribution offset is considered, if not sooner:

² See Ordinance O-2010-89.

§24.1704 Contribution Rate

The ~~City Auditor and Comptroller will~~ shall withhold from the wages or salary of a Elected Officer who becomes a Member of this System an amount necessary to ensure compliance with the substantially equal requirement of City Charter Section 143 8% of his or her Base Compensation, which will be deposited in the Retirement Fund and credited to the individual Member's account. No Elected Officer Member shall be eligible to purchase service credits. ~~The employee contribution rate will also be 8% of Base Compensation for any purchase of prior service as an Elected Officer Member.~~

Any Elected Officer in office as of the passage of this ordinance shall provide the City Attorney a waiver of the right to receive the 8% contribution cap previously established in the Municipal Code.

For any Elected Officer who fails to provide such a waiver by November 1, 2010, the City Comptroller shall reduce that Official's Base Compensation by an amount equal to the difference between one-half of the annually determined Normal Cost of that Official's retirement and the amount determined by the contribution rate in effect prior to the amendment of this section.

Financial Impact of Eliminating Pension Subsidies for Politicians

The tables below show the budgetary impact of the proposed legislation (and the City Attorney's legal interpretation) versus simple elimination of the retirement contribution offset as currently proposed by the Faulconer, Frye and Gloria memorandum:

TABLE 2: Status Quo City Council Pension Costs (% = % of Payroll)		
Base Pay: FY 2011 Budget	\$75,096	
Employer Rate	30.53%	\$22,927
Member Contribution Rate	9.06%	\$6,804
Total Normal Cost Rate	39.59%	\$29,731
<i>City Offset</i>	5.89%	\$4,423
Net Normal Cost (City)	36.42%	\$27,350
Net Normal Cost (Councilmember)	3.17%	\$2,381
FY 2011 UAL Rate (City)	39.15%	\$29,400
Total FY 2011 Pension Cost (City)	75.17%	\$56,750
Total FY 2011 Pension Cost (Councilmember)	3.17%	\$2,381

Sources: City of San Diego FY 2011 Budget and SDCERS June 30, 2009 Actuarial Valuation

TABLE 3: Elimination of City Council Offset Only (% = % of Payroll)		
Base Pay: FY 2011 Budget	\$75,096	
Employer Rate	30.53%	\$22,927
Member Contribution Rate	9.06%	\$6,804
Total Normal Cost Rate	39.59%	\$29,731
City Offset	0.00%	\$0
Net Normal Cost (City)	30.53%	\$22,927
Net Normal Cost (Councilmember)	9.06%	\$6,804
FY 2011 UAL Rate (City)	39.15%	\$29,400
Total FY 2011 Pension Cost (City)	69.68%	\$52,327
Total FY 2011 Pension Cost (Councilmember)	9.06%	\$6,804

Sources: City of San Diego FY 2011 Budget and SDCERS June 30, 2009 Actuarial Valuation

TABLE 4: Elimination of Unequal Taxpayer Subsidy for City Council Pension Costs as Proposed in this Memorandum (% = % of Payroll)		
Base Pay: FY 2011 Budget	\$75,096	
Employer Rate	19.80%	\$14,865
Member Contribution Rate	19.80%	\$14,865
Total Normal Cost Rate	39.59%	\$29,731
City Offset	0.00%	\$0
Net Normal Cost (City)	19.80%	\$14,865
Net Normal Cost (Councilmember)	19.80%	\$14,865
FY 2011 UAL Rate (City)**	> 19.58%	> \$14,700
FY 2011 UAL Rate (Councilmember)**	< 19.58%	< \$14,700
Total FY 2011 Pension Cost (City)**	> 39.37%	> \$29,565
Total FY 2011 Pension Cost (Councilmember)**	< 39.37%	< \$29,565

Sources: City of San Diego FY 2011 Budget and SDCERS June 30, 2009 Actuarial Valuation

**The impact of requiring substantially equal contributions in full accordance with the City Attorney's legal interpretation (i.e. sharing of investment losses for the year ending June 30, 2009) on the City's FY 2011 UAL rate for elected officials requires an actuarial determination. Given that such a determination is currently unavailable, these values are presented as inequalities.

As the tables above show, taxpayers currently subsidize approximately \$8,062 above and beyond an equal share of the Normal Cost of each City Councilmember's pension in FY 2011.

However, sharing costs as called for by the City Charter in accordance with the City Attorney's legal interpretation eliminates the excess taxpayer subsidy entirely for Normal Cost, and potentially for investment losses.

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To ensure that this action can be easily docketed along with the consideration of the elimination of City Council retirement contribution offsets, Municipal Code strikeout language and a draft ordinance are attached to enable expediting of the docketing process and for reference.

I look forward to joining with my Council colleagues in halting this excessive subsidy of pension costs for politicians to truly lead pension reform by example as part of ongoing efforts to solve the City's dire financial problems.

cc: City Attorney Jan Goldsmith
Andrea Tevlin, Independent Budget Analyst

Attachments (2):

- 1) Municipal Code Strikeout/Underline Language for Reform of Taxpayer Subsidy for City Politician Pensions
- 2) Draft Ordinance to Reform Taxpayer Subsidy for City Politician Pensions

Attachment 1

§24.1704 Contribution Rate

The ~~City Auditor and Comptroller will~~ shall withhold from the wages or salary of a Elected Officer who becomes a Member of this System an amount necessary to ensure compliance with the substantially equal requirement of City Charter Section 143 ~~8% of his or her Base Compensation~~, which will be deposited in the Retirement Fund and credited to the individual Member's account. No Elected Officer Member shall be eligible to purchase service credits. ~~The employee contribution rate will also be 8% of Base Compensation for any purchase of prior service as an Elected Officer Member.~~

Any Elected Officer in office as of the passage of this ordinance shall provide the City Attorney a waiver of the right to receive the 8% contribution cap previously established in the Municipal Code.

For any Elected Officer who fails to provide such a waiver by November 1, 2010, the City Comptroller shall reduce that Official's Base Compensation by an amount equal to the difference between one-half of the annually determined Normal Cost of that Official's retirement and the amount determined by the contribution rate in effect prior to the amendment of this section.

Attachment 2

ORDINANCE NUMBER O-_____

DATE OF FINAL PASSAGE_____

AN ORDINANCE AMENDING CHAPTER 2, ARTICLE 4, OF THE SAN DIEGO MUNICIPAL CODE SECTION 24.1704; TO ELIMINATE THE UNEQUAL TAXPAYER SUBSIDY OF THE PENSIONS OF CITY POLITICIANS.

WHEREAS, the City of San Diego faces a serious structural budget deficit, threatening service levels and increasing calls for higher taxes on San Diego working families and businesses; and

WHEREAS, the City of San Diego's annual pension payment is projected to be the most significant cost driver in the City's budget; and

WHEREAS, politicians in the City of San Diego currently receive the most generous pension benefit multipliers of all City employees; and

WHEREAS, politicians in the City of San Diego currently receive a taxpayer subsidy of their pension contributions above and beyond the amount called for by the City Charter; and

WHEREAS, the taxpayer subsidy for the pension contribution of City politicians is the most generous of all City employee classifications; and

WHEREAS, the City Council has the ability to end the subsidy by amending the Municipal Code; and

WHEREAS, the City Council is choosing to end the exorbitant taxpayer subsidy of their pension contributions by amending the Municipal Code as shown by the attached strikeout language; and

WHEREAS, it is now necessary and appropriate to amend the Municipal Code to provide for the above-recited changes; NOW THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 4, Division 17 of the San Diego Municipal Code is amended by amending section 24.1704 to read as follows:

§24.1704 Contribution Rate

The Comptroller shall withhold from the wages or salary of a Elected Officer who becomes a Member of this System an amount necessary to ensure compliance with the substantially equal requirement of City Charter Section 143, which will be deposited in the Retirement Fund and credited to the individual Member's account. No Elected Officer Member shall be eligible to purchase service credits.

Any Elected Officer in office as of the passage of this ordinance shall provide the City Attorney a waiver of the right to receive the 8% contribution cap previously established in the Municipal Code.

For any Elected Officer who fails to provide such a waiver by November 1, 2010, the City Comptroller shall reduce that Official's Base Compensation by an amount equal to the difference between one-half of the annually determined Normal Cost of that Official's retirement and the amount determined by the contribution rate in effect prior to the amendment of this section.